Kerr Addison Mines Limited

Annual Report 1980

RCB

Kerr Addison Mines Limited

DIRECTORS:

P. S. Cross
Executive Vice-President
Kerr Addison Mines Limited

Allan Findlay, Q.C.
Partner
Tilley, Carson & Findlay

J. O. Hinds
Senior Vice-President —
Exploration & Development
Noranda Mines Limited

William James
President
Kerr Addison Mines Limited

James W. McCutcheon, Q.C.
Partner
Shibley, Righton & McCutcheon

D. G. Neelands, Q.C.
Chairman
Canada Permanent Mortgage Corporation

J. P. W. Ostiguy, O.C.
Chairman
Greenshields Incorporated

Alfred Powis
Chairman and President
Noranda Mines Limited

W. H. Rea, C.M.
Vice-President
The Mutual Life Assurance Company of Canada

W. S. Row
Chairman of the Board,
Kerr Addison Mines Limited

D. E. G. Schmitt
Senior Vice-President — Mines
Noranda Mines Limited

OFFICERS:

W. S. Row
Chairman of the Board

William James
President & Chief Executive Officer

P. S. Cross
Executive Vice-President

I. D. Bayer
Treasurer

J. B. Sage
Secretary

D. A. Lowrie
Vice-President — Exploration

A. H. Cross
Comptroller

OPERATIONS:

The Kerr Addison Mine
D. S. Douglass, Manager

Agnew Lake Mines Limited
L. H. Heymann, Manager

Mogul of Ireland
P. S. Cross, Chairman
& Managing Director

W. E. Hitchman, Manager

HEAD OFFICE AND EXPLORATION OFFICE:

P.O. Box 91
Commerce Court West
Toronto, Ontario
M5L 1C7

REGISTRAR AND TRANSFER AGENTS:

Canada Permanent Trust Company, Toronto
Registrar & Transfer Company, New York, N.Y.
and Jersey City, N.J.

ANNUAL AND GENERAL MEETING OF SHAREHOLDERS:

Thursday, April 30, 1981, 12:00 noon
in Commerce Hall, Commerce Court West,
King and Bay Streets,
Toronto, Ontario.

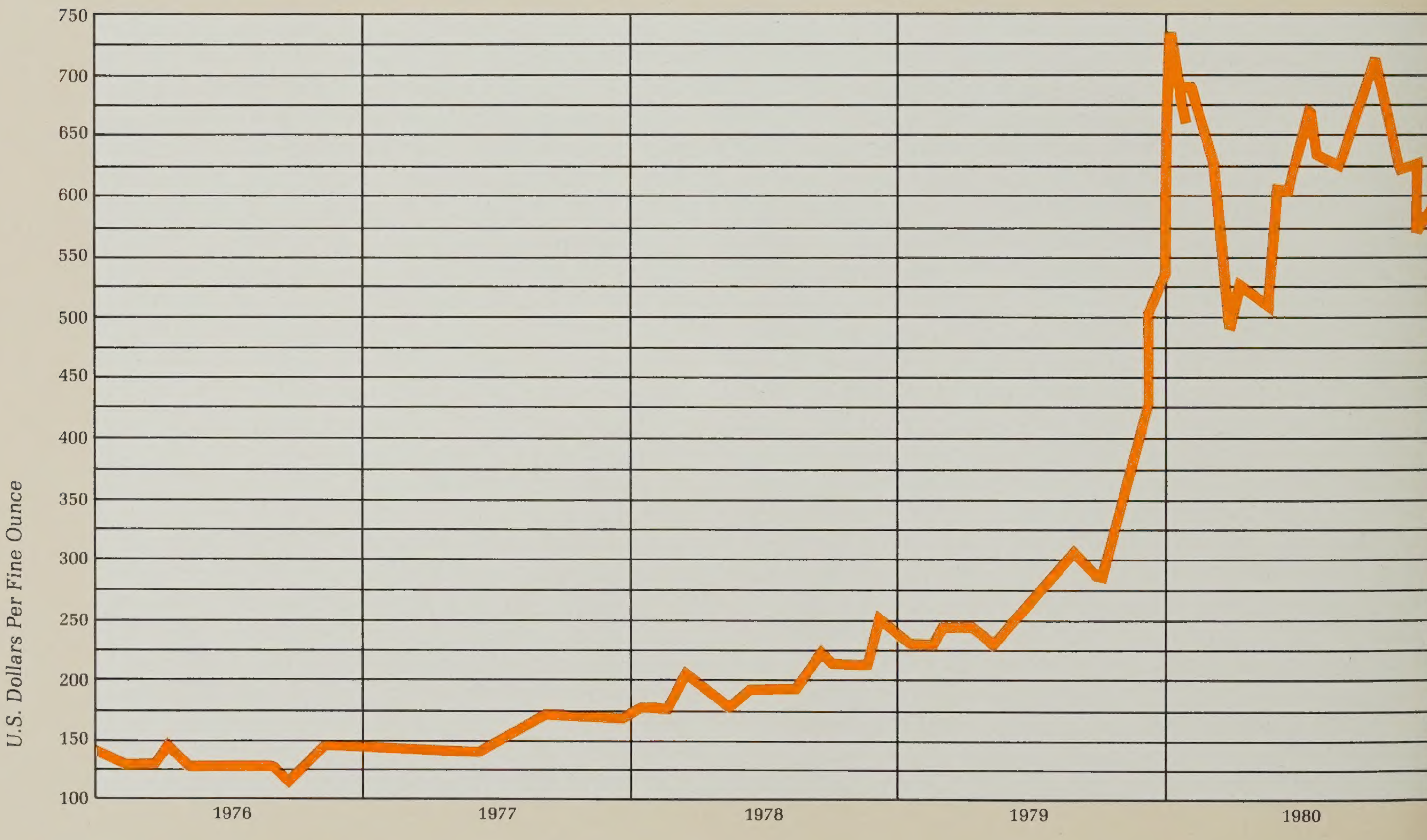
Financial Summary:

	1980	1979	1978	1977	1976
Millions of Dollars					
Production revenue	**$ 69.8**	$ 54.8	$ 40.8	$ 44.5	$ 38.4
*Net income (loss)	**47.3**	(5.7)	15.6	8.4	7.1
Working capital (deficit)	**23.7**	39.6	(1.0)	8.9	32.9
Dollars Per Share					
*Net income (loss)	**$ 5.07**	$(0.61)	$ 1.68	$ 0.90	$ 0.77
Dividends declared	**.40**	.10	.50	.50	.50

*Restated for 1976 to 1978

The Gold Picture:

Weekly Average Gold Price, Second Fixing — London Gold Market



Directors' Report to the Shareholders

Net income for 1980 was $47.3 million or $5.07 per share, compared to a loss of $5.7 million in 1979, as follows:

($ millions)	1980	1979
Earnings from operations	$ 11.5	$ 7.6
Earnings from associated companies	24.8	24.7
Add (deduct) special items	11.0	(38.0)
Net income (loss)	$ 47.3	$ (5.7)
Net income (loss) per share	$ 5.07	$(0.61)

Production values and earnings from operations increased in 1980 due to higher gold prices. Improved results from the Kerr Addison gold mine were partially offset by the loss incurred at Mogul of Ireland, lower profits from Canadian Electrolytic Zinc and increased mineral exploration expenditures. The Canadian Hunter joint venture made its initial contribution to Kerr Addison's earnings during the current year.

Noranda Mines Limited had earnings of $408.4 million in 1980 compared to $394.5 million in 1979. As a result, Kerr Addison's share of earnings from associated companies amounted to $24.8 million, slightly higher than the previous year.

Special items in 1979 included the $59.5 million write-off of accumulated expenditures and costs associated with the development of the Agnew Lake uranium property and provision for mine closure and $21.3 million in gains from sales of resource properties. During 1980, a number of favourable factors permitted the Company to reduce the Agnew Lake mine closure provision by $16.0 million, resulting in an after-tax credit of $10.9 million.

Other special items in 1980 included a $4.4 million gain on disposal of investments, primarily reflecting profits from the issue of treasury shares by Noranda Mines Limited and a $4.3 million write-off of Kerr Addison's investment in Mogul of Ireland.

Working capital at December 31, 1980 was $23.7 million, a decline of $15.9 million from the previous year end. Funds provided from operations amounted to $22.2 million and $7.8 million in dividends were received from Zinor Holdings Limited. Expenditures included $26.0 million on the purchase of common shares of Zinor Holdings Limited and $16.3 million for capital expenditures, primarily gas and oil exploration and development. Dividend payments to shareholders, omitted during the final three quarters of 1979, were reinstated in the second quarter of 1980 and dividends totalling 40 cents per share were paid over the balance of the year.

Production of gold from the Kerr Addison mine at Virginiatown, Ontario, declined to 55,900 ounces in 1980, produced from 215,000 tons of ore grading 0.27 ounces per ton, compared to 62,300 ounces in 1979, produced from 193,000 tons grading 0.33 ounces per ton. Although production in the current period declined due to lower ore grades, the profit contribution from this operation increased substantially over the previous year. The price of gold, as reflected on the London gold market averaged in excess of $600 U.S. per ounce during 1980, approximately double the average price in 1979. The higher level of gold prices has permitted the Company to reduce cut-off grades and add lower grade reserves at the mine. As a result, gold reserves at year end

were estimated at 100,000 ounces, a decline of only 10,000 ounces during 1980. The Company actively continues to explore for gold deposits in the vicinity of the mine property and is prepared to reactivate existing unused milling capacity should custom ore from the area become available.

Uranium production from the Agnew Lake property, located west of Sudbury, Ontario, increased to 507,000 pounds of U_3O_8 in 1980, compared to 448,000 pounds in the previous year. Deliveries to customers amounted to 250,000 pounds and the uranium loan was reduced to a balance of 478,000 pounds at year end. Mining was discontinued, as planned, during the second quarter of 1980. Subsequently, operations were limited to leaching broken rock in the underground stopes and on the surface stockpile. Production of uranium will decline in 1981 as no new ore has been brought under leach since the first half of 1980. Outstanding delivery commitments at year end amounted to 200,000 pounds of U_3O_8.

In September, 1979, when the Company decided to curtail operations and write off its investment in Agnew Lake, certain cost estimates and production assumptions were made to arrive at the provision of $45 million to close the property and repay the uranium loan. Since that time, performance at the property in terms of operating costs, production revenues and realizations from the sale of fixed assets has been above expectations. Therefore, the mine closure provision has been reduced by $16.0 million, resulting in a special after-tax credit to operations in 1980 of $10.9 million. Additional reductions in the mine closure provision may occur, on a smaller scale, in future years.

Production from the 75% owned Mogul of Ireland zinc-lead mine, located in County Tipperary, Republic of Ireland, amounted to 619,000 tons grading 5.3% zinc and 3.7% lead, compared to 673,000 tons grading 5.6% zinc and 3.2% lead in 1979. Due to reduced production, increased costs and lower lead prices, Mogul incurred a loss in 1980. Kerr Addison's share was $1.7 million. The Republic of Ireland is heavily dependent on imported oil for energy. Since Kerr Addison acquired its interest in Mogul in early 1976, consumer prices have increased by 75% and power costs have increased threefold. Meanwhile,the price of zinc is only nominally above the price which existed at the time of acquisition. Proven reserves at year end were 1.5 million tons grading 5.5% zinc and 3.4% lead. Because of the limited mine life and operating margins, Kerr Addison has written off its $4.3 million investment in Mogul of Ireland as a special charge against 1980 operations.

The 9.8% owned Canadian Electrolytic Zinc reduction plant in Valleyfield, Quebec, produced 229,000 tons of zinc slab, which represents 95% of plant capacity, compared to a production rate of 92% in 1979. Although demand for zinc metal was relatively strong during 1980, operating profit margins were below those of the previous year due to the tight supply and resulting higher cost of purchasing zinc concentrates. During 1981, supplies of zinc concentrates are expected to remain in short supply. During the next three years, C.E.Z. plans to expand its roaster and acid plant facilities and modernize other areas of the operation. Kerr Addison's share of these capital programmes is expected to be $9.2 million.

In February, 1980, the shareholders of Zinor Holdings Limited purchased additional common shares of Zinor in proportion to their existing holdings to enable Zinor to repay its $95.0 million bank loan. Kerr Addison's 27.3% share amounted to $26.0 million. Treasury share issues by Noranda Mines Limited during 1980, principally to acquire Maclaren Power and Paper Company, resulted in Zinor's interest in Noranda being reduced from 23.6% to 21.2%. The profit of $4.1 million which accrued to Kerr Addison because of these share transactions is included with gains on disposal of investments and other assets in the 1980 statement of operations.

Average gas production from the 11.1% owned Canadian Hunter joint venture was 28 million net cubic feet per day in 1980, an increase of 40% over the previous year. TransCanada PipeLines' calculations of the Elmworth and Wapiti gas fields in Alberta to establish reserve based daily contract quantities are expected to be completed by March, 1981. Once these are established, the applicable take or pay quantities will become retroactive to November 1, 1980. Gas processing facilities at Elmworth and Wapiti were expanded by 50 MMcf per day each, to 200 MMcf and 75 MMcf per day, respectively. These expanded facilities are required to handle both increased gas sales in 1981 to TransCanada and export sales by other producers in the area. Although gas production will increase

Deep diamond drilling for uranium on Comaplex project, Athabaska Basin, Saskatchewan.

substantially in 1981, sales will be restricted due to the oversupply situation in western Canada. Gas production at South Gold Creek, 25 miles south of Wapiti, commenced in August, 1980, (Hunter's share — 2.5 MMcf per day) and production at Karr, immediately to the east of Gold Creek, is expected to commence in late 1981 (Hunter's share — 10.0 MMcf per day).

During 1980, development drilling was concentrated in the Elmworth and Wapiti contract areas and exploration drilling was centered between Elmworth and Gold Creek, Alberta and in the British Columbia Deep Basin to the west of Elmworth. At year end, the initial exploration well was being drilled in the Nechako Basin, in the central interior of British Columbia. During 1980, Canadian Hunter participated in the drilling of 105 exploratory and development wells, resulting in 4 oil wells and 90 gas wells, giving an overall drilling success ratio of 90%. Kerr Addison's share of expenditures amounted to $13.1 million.

Kerr Addison's share of gas reserves at December 31, 1980, before royalty, was 114 billion cubic feet proven and 204 billion cubic feet proven plus probable.

The introduction of the National Energy Programme by the Canadian Government in October, 1980, has created a difficult environment for the petroleum industry in this country. New taxes will reduce the cash flows necessary to explore and develop new reserves. Canadian Hunter plans to limit its capital spending in 1981 to existing programmes and those required to maintain land positions.

Kerr Addison, through a wholly-owned U.S. subsidiary, has an 11.25% participating interest in the American Hunter joint venture. The partners are the same companies that participate in Canadian Hunter and, Noranda Mines Limited is again the operator. Kerr Addison's share of expenditures in 1980 was (U.S.) $1.4 million, principally on assembling a land position. The programme in the United States will be greatly expanded in 1981.

Early in 1979, the Company changed its mineral exploration emphasis from uranium to gold, focusing on the vicinity of the Kerr Addison mine at Virginiatown. On the Murphy property in Garrison Township, Ontario, a small gold deposit suitable for open pit mining, has been delineated. This material, from which the Company expects to recover 8,000 ounces of gold, will be shipped to the Kerr Addison concentrator. Other deposits in the area have been examined, but none is economic at present gold prices. Exploration for precious metals continues in Quebec, Manitoba, British Columbia and the south-western United States. The Company's compact and experienced exploration group is uniquely suited to rapid shifts in exploration demands. As techniques improve and commodity markets change, Kerr Addison will change its exploration practices and philosophy to adjust to the new parameters.

During 1980, the Kerr Addison gold mine, Zinor Holdings Limited and Canadian Electrolytic Zinc were the principal sources of cash operating income to the Company. Canadian Hunter will become an increasingly important contributor as gas production increases during the next few years and this will partly offset declining production from the gold mine. Mineral exploration expenditures were increased by 50% to $3.1 million in 1980 and will increase further in 1981 as the Company attempts to improve its mineral reserve position. With metal prices generally firm during the past couple of years, few viable mineral deposits have been available for sale. However, Kerr Addison will continue to pursue property acquisitions to complement its exploration programme in its quest for a broadened mining base.

On behalf of the Board,

William James
President

Toronto, Canada
February 18, 1981

Dave Constable, Regional Geologist, Dale Hendrick, Chief Geologist and Chris Lazarenko, Staff Geologist, at collar of vertical drill hole location on Garrison, Ontario gold project in June, 1980.

Dave Lowrie (on left), Vice-President — Exploration, visiting drill site at an Ontario uranium project.

Kerr
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Report on Mining Operations

THE KERR ADDISON MINE

The Kerr Addison gold mine located at Virginiatown, Ontario milled 214,695 tons of ore, averaging 587 tons per day at a recovered grade of 0.26 ounces of gold per ton. Production amounted to 55,869 ounces of gold and 2,620 ounces of silver having a realized value of $37.34 million or $173.91 per ton milled, an increase of 69% over the previous year due entirely to higher metal prices. Overall recovery of gold in the milling operation was 96.3%. The average gold price received for 1980 was $658.68 Cdn. compared to $337.76 Cdn. for 1979.

Mine development was increased substantially during the year preparing a number of isolated low grade areas for mining on the upper levels of the mine. Development accounted for 9% of the ore broken.

Mining was carried out in eight different ore bodies. The flow type ore produced 129,862 tons at a grade of 0.360 ounces of gold per ton while the carbonate ore bodies produced 84,833 tons at 0.131 ounces of gold per ton. Square-set mining accounted for 66% of the ore mined while cut-and-fill and shrinkage made up 21% and 5% respectively.

Production costs increased by 16% per ton milled and by 43% per ounce of gold produced over those of 1979. Total labour costs increased 23% and were 68% of operating costs.

Ore reserves continue to be reviewed in light of the fluctuating gold price. At December 31, 1980, mineable reserves with dilution allowance, were estimated to be 415,229 tons grading 0.256 ounces of gold per ton resulting in a decrease from 1979 of 29,697 tons after the milling of 214,695 tons. These reserves should ensure a continuous operation at least through to the end of 1982.

Major repairs were made to the headframe over the No. 3 shaft. Engineering studies were commenced on conversion of part of the milling facilities to handle custom ores.

In May of 1980 a new two-year collective bargaining agreement was signed. The total work force at the property was increased during the year from 330 to 374 persons, reflecting the increased development and mining activity throughout the year. The accident frequency per million man hours worked improved from 14 in 1979 to 9 in 1980. The frequency for all gold mines in Ontario for 1980 was 16.

From the commencement of milling in May 1938 to December 31, 1980, the Kerr Addison mine has produced 9,944,508 ounces of gold with a value of $492,209,370 from the milling of 35,942,929 tons with a recovered average grade of 0.277 ounces of gold per ton.

AGNEW LAKE MINES LIMITED

Production of U_3O_8 at the Agnew Lake property during 1980 amounted to 507,182 pounds with the surface leach pile providing 43% of the uranium in solution and the balance coming from the underground stopes. Since commencement of operations in 1977, 1,424,940 pounds of U_3O_8 have been produced.

Underground mining ceased at the end of May 1980, when eight stopes containing about 2,221,000 tons were under leach. Including the surface leach pile, approximately 3,737,000 tons were under leach at the end of the year.

At year end, the solution inventory in the stopes and in the surface leach pile was estimated at 479,400,000 litres containing approximately 96,000 pounds of U_3O_8. Overall extraction to date has been 45%. Stope and surface leach pile extractions have been estimated at 41% and 53% respectively.

While not classified as ore under current conditions, there remains in place at December 31, 1980 an estimated 5,803,000 tons of mineral reserves in the proven and probable categories, with a U_3O_8 content of

approximately one pound per ton. Mineral reserves, including that broken in stopes and on the surface leach pile, are estimated at 9,540,000 tons containing 7,818,000 pounds of U_3O_8 or 0.82 pounds per ton.

The ion exchange and solvent extraction plants treated 1,392,400 x 10^3 litres of solution grading 0.137 grams of uranium per litre and performed at an overall efficiency of 98.2% with a plant availability of 98.6%.

At year end, the work force totalled 84 persons, a reduction from 284 at the commencement of the year. All terminated personnel participated in a severance scheme, while those retained until completion of the operation will be entitled to a retention bonus. Mining companies in the area and companies within the Noranda Group have been extremely cooperative in placing personnel in other employment.

MOGUL OF IRELAND LIMITED — (Kerr Addison 75% Interest)

During 1980, the Mogul mine located at Silvermines, County Tipperary, Republic of Ireland, milled 619,453 tons of ore grading 3.71% lead and 5.31% zinc, producing in concentrates 15,426 tons of lead and 27,429 tons of zinc, resulting in recoveries of 67.6% and 83.3% for lead and zinc respectively. While throughput was 8% below that of the previous year, the combined ore grade was slightly higher.

Mine development advance during the year amounted to 12,213 feet and was concentrated mainly in the development of the "K" Zone and the down-dip extensions of the "G" and "B" Zones. Diamond drilling totalled 16,121 feet comprising 52 hole completions underground and 10 from surface. Development contributed 26% of the ore broken. Waste handled totalled 18,505 tons.

Total ore broken from all sources amounted 618,553 tons, a slight decrease from the previous year. The "B" and "K" Zones provide 43% of the broken tonnage with the balance coming from the Upper and Lower "G" Zones. Pillar recovery provided 121,878 tons or 18%. Long hole drill footage totalled 231,942. Only 25,000 tons of backfill was placed underground. The drilled off reserve at the end of the year stood at 113,108 tons.

While the average settlement price for lead in 1980 was 31% lower than that for 1979, and the European G.O.B. zinc producer price remained essentially the same, total operating expenditures, including exploration and marketing, increased 23% or 30% per ton milled. Power costs alone increased 54% over the previous year and accounted for 17% of direct operating costs. Labour and related benefit costs increased 22% and represented 53% of direct operating costs. The inflation rate in Ireland was 18.2% compared to 16% for 1979.

Faced with a continuing escalation of costs, relatively weak metal markets and more difficult operating conditions as mining advances, reserves were adjusted to reflect these factors. Mineable proven and probable reserves with dilution were estimated at year end at 1,447,000 tons grading 3.41% lead and 5.40% zinc, resulting in a decrease from 1979 of approximately 722,000 tons after the milling of 619,453 tons.

The total work force at year end was 492 persons, a decrease of 16 from last year. Turnover for the year was 9%. The current National Wage Understanding came into effect on October 1, 1980 and provided for a 15% increase over a 15-month period. Extensive negotiations were conducted with the various unions representing all employees on the matter of extra-statutory redundancy upon ultimate mine closure.

EXPLORATION

Kerr Addison's mineral exploration expenditures in 1980 totalled approximately $4.8 million of which 36% was recovered from joint venture participants.

The emphasis on exploration for gold was continued in Canada and the southwest

United States. A large portion of the funds expended on gold investigations was employed in the exploration and evaluation of gold deposits in the Larder Lake area and Garrison Township in Ontario. If viable, some of these properties may be exploited and the ore treated in the nearby Kerr Addison mill at Virginiatown.

Although emphasis on uranium exploration continued to be reduced, each of the Company's uranium joint ventures located in Saskatchewan and New Mexico were retained in good standing.

The excellence and continued loyalty of our employees and the support of the directors and officers during the past year is very much appreciated.

Respectfully submitted,

P. S. Cross
Executive Vice-President

Toronto, Canada
February 18, 1981

Jim Smid, Keradamex Staff Geologist, prospecting old gold mine area in California, U.S.A.

Kerr
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Consolidated Statement of Operations

For the year ended December 31, 1980 (with comparative figures for 1979)

	1980	1979
Operations:		
Value of production	**$69,789,000**	$54,846,000
Cost of production	**40,801,000**	34,815,000
	28,988,000	20,031,000
Dividends and interest income	**1,356,000**	1,062,000
	30,344,000	21,093,000
Deduct (add):		
Administrative and general expenses	**594,000**	624,000
Outside exploration expenses	**3,071,000**	2,124,000
Depreciation and depletion	**3,439,000**	2,580,000
Income and mining taxes (including deferred taxes of $7,045,000 in 1980; $3,447,000 in 1979)	**11,744,000**	7,902,000
Minority interest in profits (losses) of a subsidiary company	**(384,000)**	545,000
Foreign currency translation loss (gain)	**364,000**	(302,000)
	18,828,000	13,473,000
	11,516,000	7,620,000
Share of earnings of associated companies	**24,843,000**	24,732,000
Profit before the following	**36,359,000**	32,352,000
Add (deduct):		
Reduction in provision for mine closure associated with the Agnew Lake uranium property (net of deferred tax of $5,100,000) (note 2)	**10,900,000**	
Write-off of investment in Mogul of Ireland Limited (note 4)	**(4,348,000)**	
Write-off of accumulated expenditures and costs associated with the Agnew Lake uranium property and provision for mine closure (net of deferred income tax reductions — $28,000,000) (note 2)		(59,464,000
Gain on sale of interest in gas and oil joint venture (net of deferred income taxes — $8,035,000)		17,091,000
Gain on sale of Anvil District, Yukon, mining properties and shares of Vangorda Mines Limited (net of deferred income taxes — $1,175,000)		4,227,000
Gain on disposal of investments and other assets (net of deferred income taxes 1980 — $65,000; 1979 — Nil) (note 7(e))	**4,367,000**	116,000
Net income (loss) for the year	**$47,278,000**	$ (5,678,000)
Net income (loss) per share	**$5.07**	$(.61)

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Retained Earnings

For the year ended December 31, 1980 (with comparative figures for 1979)

	1980	1979
Retained earnings at beginning of year	**$ 80,009,000**	$86,618,000
Add net income (loss) for the year	**47,278,000**	(5,678,000)
	127,287,000	80,940,000
Deduct dividends (40¢ per share in 1980; 10¢ per share in 1979)	**3,735,000**	931,000
Retained earnings at end of year	**$123,552,000**	$80,009,000

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of
Kerr Addison Mines Limited:

We have examined the consolidated balance sheet of Kerr Addison Mines Limited as at December 31, 1980 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Kerr Addison Mines Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of a subsidiary company, Mogul of Ireland Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Toronto, Canada,
February 19, 1981.

Chartered Accountants

Kerr Addison Mines Limited

(Incorporated under the laws of Ontario)

Consolidated Balance Sheet

December 31, 1980
(with comparative figures at December 31, 1979)

ASSETS	1980	1979
Current:		
Cash, term deposits and short-term notes	**$ 12,952,000**	$ 21,922,000
Marketable securities and short-term investments, at cost (quoted market value 1980 — $9,498,000; 1979 — $6,888,000)	**2,866,000**	3,111,000
Concentrates, bullion and metals awaiting settlement, in transit and on hand	**16,777,000**	18,803,000
Accounts and interest receivable	**7,054,000**	5,125,000
Supplies and materials, at cost	**6,086,000**	3,253,000
Prepaid expenses	**153,000**	198,000
Total current assets	**45,888,000**	52,412,000
Investments:		
Associated companies	**121,110,000**	74,943,000
Sundry, at cost	**313,000**	764,000
	121,423,000	75,707,000
Property, plant and equipment, at cost:		
Mining and smelting	**47,523,000**	46,290,000
Gas and oil (note 1(e))	**44,299,000**	
	91,822,000	46,290,000
Less accumulated depreciation and amortization	**42,487,000**	34,633,000
	49,335,000	11,657,000
Deferred exploration and development expenditures on gas and oil properties (note 1(e))		29,336,000
Deferred income taxes		4,646,000
	$216,646,000	$173,758,000

(See accompanying notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY	1980	1979
Current:		
Accounts payable and accrued charges	**$ 13,649,000**	$ 8,478,000
Income and mining taxes payable (note 7(f))	**8,535,000**	4,375,000
Total current liabilities	**22,184,000**	12,853,000
Provision for mine closures (note 3)	**24,758,000**	39,477,000
Deferred income taxes	**6,064,000**	
Minority interest in subsidiaries	**1,421,000**	2,040,000
Shareholders' equity (note 5):		
Share capital	**41,900,000**	41,627,000
Retained earnings	**123,552,000**	80,009,000
	165,452,000	121,636,000
Less the company's pro rata interest in its shares held by associated companies	**(3,233,000)**	(2,248,000)
	162,219,000	119,388,000
	$216,646,000	$173,758,000

On behalf of the Board:

William James, Director

P. S. Cross, Director

Kerr
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Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1980 (with comparative figures for 1979)

	1980	1979
Source of funds:		
Funds provided from operations	**$22,208,000**	$17,350,000
Proceeds from sale of gas and oil properties		34,527,000
Proceeds from sale of Anvil District, Yukon, mining properties and shares of Vangorda Mines Limited		14,003,000
Dividends from associated companies	**7,777,000**	4,414,000
Proceeds from sale of fixed and other assets	**516,000**	283,000
Proceeds from issuance of shares for cash	**215,000**	61,000
Other sources of funds (net)		344,000
	30,716,000	70,982,000
Application of funds:		
Expenditures on Agnew Lake property —		
Exploration, development and other		21,432,000
Cost of concentrate purchased for return under loan agreement		42,666,000
Proceeds from sale of borrowed concentrate released from escrow (net)		(44,465,000)
		19,633,000
Mine closure expenditures (net)	**458,000**	
Purchase of shares of associated company	**25,980,000**	
Deferred exploration and development expenditures on gas and oil properties (net)		9,107,000
Dividends (excluding stock dividend of $58,000)	**3,677,000**	931,000
Additions to property, plant and equipment	**16,293,000**	775,000
Other applications of funds (net)	**163,000**	
	46,571,000	30,446,000
Increase (decrease) in working capital	**(15,855,000)**	40,536,000
Working capital (deficiency), beginning of year	**39,559,000**	(977,000)
Working capital, end of year	**$23,704,000**	$39,559,000

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

December 31, 1980

1. **Summary of significant accounting policies**

(a) Basis of presentation of financial statements —
The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada and include, on a consolidated basis, the accounts of Kerr Addison Mines Limited and its subsidiary companies:

	Percentage ownership
Agnew Lake Mines Limited	100%
Keradamex, Inc.	100%
Kerramerican, Inc. (non-operating)	100%
Normetal Mines Limited	100%
Quemont Mines Limited	100%
Mogul of Ireland Limited	75%

The company follows the equity method of accounting for its investment in Zinor Holdings Limited. Under the equity method the investment is initially recorded at cost and adjusted thereafter for the company's pro rata share of earnings less dividends received since the dates of investment. The difference between the cost of this investment and the underlying net book value at the various dates of acquisition is being amortized over the lives of the assets to which it is attributed. The aggregate of such purchase price differences at December 31, 1980 amounted to $5,305,000 ($6,309,000 at December 31, 1979). Through its investment in Zinor, the company has an indirect interest in Noranda Mines Limited of 5.8% while Noranda in turn owns 41.3% of the outstanding common shares of Kerr Addison. These reciprocal shareholdings result in the company having an interest of 2.4% in its own shares which has been deducted from shareholders' equity. Similarly, the company's net income and net income per share have been determined after taking into account such inter-company shareholdings.

(b) Exchange translation —
The financial statements of companies outside of Canada have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the year end; fixed assets, depreciation and amortization provisions on the basis of rates prevailing at dates of acquisition, and income and expenses (other than depreciation and amortization) at average rates during the year. Exchange gains or losses resulting from such translation practices are reflected in the consolidated statement of operations.

(c) Concentrates, bullion and metals —
Consistent with industry practice, the company records as revenue the value of production of concentrates, bullion, and metals awaiting settlement, in transit and on hand at estimated net realizable value.

(d) Property, plant and equipment —
Additions to property, plant and equipment are recorded at cost and include previously deferred exploration and development expenditures on properties which have been brought into production.

Depreciation of property, plant and equipment and amortization of development expenditures are provided at rates designed to write off the costs over the estimated service lives of the assets. Fixed assets are generally depreciated in equal annual amounts over their estimated service lives and development expenditures are amortized on a unit-of-production basis.

(e) Exploration and development expenditures —

Minerals —

Mineral exploration and development expenditures are charged against current earnings unless they relate to interests in properties where the reserves have the potential of being economically recoverable, in which case the expenditures are deferred. Upon disposal or abandonment of such interests, the net gain or loss is reflected in the consolidated statement of operations. If the properties are brought into production, deferred exploration and development expenditures relating thereto are reclassified with property, plant and equipment and amortized as explained in note 1(d).

Gas and oil —

The company participates through joint venture agreements with Noranda Mines Limited and others in certain gas and oil properties held by Canadian Hunter Exploration Limited and American Hunter Exploration Ltd. as trustees.

The company has adopted the full cost method of accounting for its gas and oil activities whereby all costs relating to the exploration for and development of gas and oil reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties and costs of drilling both productive and non-productive wells.

Substantially all of the gas and oil properties held by the joint ventures are considered by management to have been in the exploratory or development stage prior to December 31, 1979 and accordingly, all expenditures (less revenues) incurred to that date, including interest on funds borrowed to finance the company's participation, were deferred in the consolidated accounts. As of January 1, 1980, the date management considers a commercial level of production to have been attained, these accumulated expenditures were reclassified with property, plant and equipment and are being amortized to income by the unit-of-production method based on estimated proven gas and oil reserves.

(f) Income taxes —

The company follows the tax allocation method of accounting for income taxes. Under this method, timing differences between reported and taxable income result in deferred income taxes. The principal timing differences relate to exploration and development expenditures and capital cost allowances which are claimed for tax purposes in years which are earlier, or later, than those in which the expenditures are written off or amortized and depreciation is charged in the consolidated statement of operations.

2. **Agnew Lake**

(a) In 1979, the company decided to curtail operations and ultimately close the Agnew Lake property and made a special charge of $59,464,000, net of related deferred income tax reductions, against 1979 operations. This charge included all expenditures and costs associated with the development of the property and a provision for mine closure.

(b) During 1980, performance at the property in terms of operating costs, revenues from production and realization of fixed assets sold was substantially better than expected in 1979 when the mine closure provision was estimated. As a result, the mine closure provision relating to the Agnew Lake property was reduced by $16,000,000 in 1980 and this amount was credited to operations as a special item of $10,900,000 net of $5,100,000 of deferred income taxes.

(c) At December 31, 1980, Agnew Lake was required to return to Eldorado Nuclear Limited (Eldorado), in kind by June 30, 1982, 478,000 pounds of uranium concentrates which it had previously borrowed from Eldorado under the terms of a 1976 loan agreement. In addition, the company had firm commitments to deliver 200,000 pounds of uranium concentrate to customers during 1981.

(d) Management believes that in certain

circumstances additional reductions in the mine closure provision may be realized. Such reductions, if any, are not determinable at the present time but are unlikely to exceed $6,000,000 (net of tax).

3. **Provision for mine closures**

In addition to costs associated with the closure of the Agnew Lake property, the provision for mine closures at December 31, 1980 includes estimated net expenditures to be incurred for reclamation, rehabilitation and closure of other mining properties currently in operation or closed in prior years but for which rehabilitation costs are still being incurred. The balance of the provision at December 31, 1980 was $28,661,000 of which $3,903,000 is included in the consolidated balance sheet as part of accounts payable and accrued charges and $24,758,000, as provision for mine closures.

4. **Mogul of Ireland Limited**

The company's share of the 1980 loss incurred by this 75% owned subsidiary was $1,696,000. On the basis of present cost projections and limited reserves, it is very unlikely that future levels of prices for zinc, lead and silver will be sufficient to cover total projected costs of mining, including depreciation, depletion and amortization, and estimated mine closure costs. In these circumstances, management concluded that it was appropriate to write off the balance of the company's investment in Mogul of $4,348,000 as a special charge against 1980 operations.

5. **Shareholders' equity**

(a) Details of share capital are as follows:

	Number of shares	
	1980	1979
Authorized — Common shares without par value	12,500,000	12,500,000
Issued and outstanding —	9,571,214	9,550,174
Company's pro rata interest in its shares held by associated companies	228,949	254,441
Dividends declared during year	$ 3,827,000	$ 954,000
Less company's pro rata share of dividends paid to associated companies	(92,000)	(23,000)
Net charge to retained earnings	$ 3,735,000	$ 931,000

(b) In 1980, 3,165 shares valued at $58,000 were issued as stock dividends. As well, 17,875 shares were issued under the company's stock option plan for $215,000 cash. At December 31, 1980, options on 66,725 shares were outstanding, exercisable at prices varying from $11.53 to $15.91 for periods up to 1990.

6. **Contingent liabilities**

(a) The company along with Agnew Lake Mines Limited is a defendant in an action commenced in the Supreme Court of Ontario by Q.M.G. Holdings Inc. arising from the sale in 1974 by Q.M.G. Holdings Inc. to Kerr Addison Mines Limited of its 10% share interest in Agnew Lake Mines Limited. Q.M.G. Holdings Inc. claims damages in excess of $13,500,000 for alleged misrepresentation. The company is defending the action and in the opinion of counsel the company has a good defence to the action on the merits.

(b) Government environmental legislation and regulations may require that the company incur future expenditures for the rehabilitation of mining properties that have been closed. While it is still not possible to develop specific plans for such rehabilitation or costs relating thereto, management believes that adequate provision for such costs has been included in the provision for mine closures.

7. **Other information**

(a) *Segmented information*

The company operates primarily in two industries — mining and smelting and, gas and oil and in two geographic areas — Canada and Ireland. The mining and smelting industry comprises the mining and sales of gold from the Kerr mine, lead/zinc from Mogul of Ireland and the zinc reduction activities of the Canadian Electrolytic Zinc operation. The gas and oil industry comprises the company's interest in the Canadian Hunter and American Hunter joint ventures. Results of the discontinued Agnew Lake operation are not included.

Information regarding industry and geographic segments is set out below:

	Industry Segments			Geographic Segments	
	Mining and smelting	Gas and oil	Consolidated	Canada	Ireland
Value of production	$67,265,000	$ 2,524,000	$ 69,789,000	$ 48,677,000	$21,112,000
Cost of production	40,551,000	250,000	40,801,000	18,460,000	22,341,000
	26,714,000	2,274,000	28,988,000	30,217,000	(1,229,000)
Outside exploration expenses	3,071,000		3,071,000	3,071,000	
Depreciation and amortization	2,298,000	1,141,000	3,439,000	1,621,000	1,818,000
Segment operating profit (loss)	$21,345,000	$ 1,133,000	22,478,000	25,525,000	(3,047,000)
Dividends and interest income			1,356,000	187,000	1,169,000
Administrative and general expenses			(594,000)	(594,000)	
Income and mining taxes			(11,744,000)	(11,893,000)	149,000
Minority interest in losses of subsidiary companies			384,000		384,000
Foreign currency translation loss			(364,000)	(13,000)	(351,000)
Share of earnings of associated companies			24,843,000	24,843,000	
Other items (net)			10,919,000	15,267,000	(4,348,000)
Net income (loss) for the year			$ 47,278,000	$ 53,322,000	$ (6,044,000)
Identifiable assets	$33,659,000	$51,600,000	$ 85,259,000	$ 74,082,000	$11,177,000
Corporate assets			131,387,000	131,387,000	
Total assets			$216,646,000	$205,469,000	$11,177,000
Capital expenditures	$ 1,330,000	$14,963,000	$ 16,293,000	$ 16,057,000	$ 236,000

Canadian production includes exports of $7,632,000 in 1980 (primarily to customers in the United States).

(b) *Related party transactions*
The company participates in a number of transactions with Noranda Mines Limited (Noranda) and its affiliated companies (the Noranda Group). Details of significant transactions with the Noranda Group are set out below:

(i) *Canadian Hunter and American Hunter —*
The company has direct and undivided interests of 11.1% and 11.25% respectively in all of the gas and oil properties, production and related activities of Canadian Hunter and American Hunter. Noranda is the major holder and operator of both of these ventures.

(ii) *Canadian Electrolytic Zinc —*
The company has a direct and undivided interest of 9.8% in all of the properties, production and related activities of Canadian Electrolytic Zinc (C.E.Z.) and the balance is owned by Noranda. The company's portion of zinc concentrate purchased on the company's behalf by C.E.Z. from the Noranda Group amounted to approximately $8,000,000.

(iii) *Marketing and administrative services —*
The Noranda Group markets substantially all of the company's production and renders technical and administrative services to the company. During 1980 marketing fees were $338,000 and fees for technical and administrative services were $151,000.

(iv) *Short-term investment pool —*
The company participates in a short-term investment pool with the Noranda Group. The pool is operated to provide participating companies with the opportunity to invest or borrow funds on a short-term demand basis within the group. Over the year the company had an average deposit balance in the pool of $987,000 and interest earned on these funds amounted to $128,000. At the year end, the deposit in the pool was $605,000.

(c) Interest expense included in the consolidated statement of operations is $770,000 for 1980 (Nil for 1979).

(d) Capital expenditures for 1981 are estimated to be approximately $20,000,000.

(e) Included in gain on disposal of investments and other assets in 1980 is a gain of $4,106,000 accruing to the company on the issue of treasury shares by Noranda Mines Limited during the year.

(f) Included in income and mining taxes payable are deferred income taxes of $1,500,000.

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